EXHIBIT 145

Survey of Dispensing Costs of Pharmaceuticals in the State of Nevada

Prepared for the

Nevada Department of Human Resources
Division of Health Care Financing and Policy

December 2007

Myers and Stauffer LC
Certified Public Accountants

Table of Contents

EXHIBITS

Chapter 1: Executive Summary

Introduction

Under contract to the Nevada Department of Human Resources, Division of Health Care Financing and Policy, Myers and Stauffer LC performed a study of pharmacy dispensing cost. The dispensing study followed the methodology and used a survey instrument similar to those used by Myers and Stauffer in Medicaid pharmacy engagements in several other states.

There were 464 pharmacy providers enrolled in the Nevada Medicaid program with paid claims between July 1, 2006 and June 30, 2007. All 464 of these pharmacies were requested to submit survey information for this study.

Myers and Stauffer performed desk review procedures to test completeness and accuracy for all dispensing cost surveys submitted. There were 294 pharmacies that filed cost surveys that could be included in this analysis. Data from these surveys was used to calculate the average cost of dispensing at each pharmacy and results from these pharmacies were tabulated and subjected to statistical analysis.

Summary of Findings

The significant findings of the study are as follows:

Dispensing Cost

- **Per the survey of pharmacy dispensing cost for pharmacies participating in the Nevada Medicaid program, the statewide average (mean) cost of dispensing, weighted by Nevada Medicaid volume, was $10.71 per prescription.**

Table 1.1 Dispensing Cost Per Prescription

Pharmacies Included in Analysis	294
Unweighted Average (Mean) [A]	$12.46
Weighted Average (Mean) [A, B]	$10.71
Unweighted Median [A]	$11.11
Weighted Median [A, B]	$9.46

[A] Inflated to common point of June 30, 2007 (midpoint of a fiscal year ending December 31, 2007) using the Employment Cost Index (ECI) (all civilian, all workers; seasonally adjusted) as published by the Bureau of Labor Statistics.
[B] Weighted by Nevada Medicaid volume.

Conclusions

There are several factors that should be considered in determining an appropriate Medicaid pharmacy reimbursement formula besides dispensing costs incurred by pharmacies. These factors include drug acquisition costs and market dynamics (e.g., the rates accepted from commercial third-party payers) balanced with the need to maintain sufficient access to services for Medicaid recipients throughout the state.

Perhaps the most important factor to consider is the need to maintain sufficient patient access to pharmacy services for Medicaid recipients throughout the state.[1] Medicaid pharmacy programs must be aware of the issue of accessibility of services and ensure that reimbursement levels are adequate to provide Medicaid recipients with reasonable levels of access to pharmacy services. One way to evaluate accessibility to services is to analyze pharmacy participation levels as well as any additional data sources available for tracking complaints about recipient access to services. A high level of pharmacy participation and low levels of complaints about access might suggest that there are not any problems regarding access to services under the current Nevada Medicaid reimbursement levels.

An analysis of market dynamics, including the payment rates accepted by pharmacies from other payers, should also be a key component of the assessment of Medicaid dispensing fees. One recent survey of pharmacy reimbursement rates from third-party payers reported an average dispensing fee

[1] Medicaid programs are required to address the issue of accessibility of services and ensure that reimbursement levels are adequate to provide recipients with reasonable levels of access to services. Federal statutes at 42 USC 1396a(a)(30)(A) (and corresponding regulations at 42 CFR 447.204) state that the Medicaid program must "assure that payments are consistent with efficiency, economy, and quality of care and are sufficient to enlist enough providers so that care and services are available under the plan at least to the extent that such care and services are available to the general population in the geographic area."

to retail pharmacies for brand name drugs of $1.99 and average ingredient reimbursement of AWP minus 15.2% for the "West" region.[2]

Cost of providing services is also a consideration for the evaluation of the adequacy of Medicaid pharmacy dispensing and ingredient reimbursement rates. A comparison of current pharmacy reimbursement rates with provider cost should consider findings related to dispensing cost in conjunction with ingredient reimbursement rates and the cost pharmacies incur to acquire prescription medications. The Department's current pharmacy dispensing fee is lower than the average cost of dispensing prescriptions. However, on the average, Myers and Stauffer estimates that pharmacies realize positive net margins on Medicaid prescriptions due to margins on drug ingredient cost.

Based on Myers and Stauffer's experience with drug acquisition cost and Nevada's current reimbursement for drug ingredients, single-source drugs and multi-source drugs without a Federal Upper Limit (FUL) price or State Maximum Allowable Cost (SMAC) price may have average margins on drug ingredient cost approximately in the range of $11 to $14 per prescription. These margins potentially offset all or part of the difference between the Medicaid dispensing fee and the average dispensing cost. Margins on drug ingredient cost for drugs with an FUL or SMAC price are estimated to be lower but remain a significant factor in the margins realized on Medicaid prescriptions.

It is anticipated that margins on drug ingredient cost will be impacted by forthcoming changes in FUL prices. These changes, as required by the Deficit Reduction Act of 2005 (DRA), will reflect a calculation of FUL prices based on the "average manufacturer price" (AMP). [3]

In view of current market dynamics for pharmacy reimbursement and the level of access of Medicaid recipients to pharmacy services, it may be reasonable to consider a dispensing fee that is less than the average dispensing cost observed in the study. This is particularly the case if current levels of ingredient reimbursement are maintained. If an increase to the current pharmacy dispensing fee of $4.76 per prescription were to be considered, such a change would be most appropriately combined with a decrease to pharmacy ingredient reimbursement. Based on the results of the study of pharmacy dispensing cost, a dispensing fee of $10.71 would reimburse the average cost of dispensing prescriptions to Medicaid recipients. Alternately, a dispensing fee of $9.46 would reimburse the weighted median cost of dispensing.

---

[2] See *The Prescription Drug Benefit Cost and Plan Design Survey Report,* 2006 Edition, Pharmacy Benefits Management Institute, Inc. and Takeda Pharmaceuticals North America, Inc. Survey findings are based on data collected in fall 2005.

[3] See Public Law 109-171, Section 6001(a)(2).

Chapter 2: Program Overview

Nevada Medicaid Pharmacy Program Overview

The Nevada Medicaid program includes a benefit for prescription drugs. This program allows recipients access to many commonly prescribed drugs through its formulary.

The current pharmacy dispensing fee for Nevada Medicaid is $4.76 for the majority of prescriptions. Medicaid ingredient reimbursement is based on the following formulas:

- Average Wholesale Price (AWP) minus 15% for single source products and innovator multi-source products.
- Federal Upper Limit (FUL), as applicable for multi-source products.
- Nevada Maximum Allowable Cost (MAC), as applicable for multi-source products.

Regardless of ingredient cost basis, the overall dispensing fee and ingredient reimbursement formula amount is limited to a maximum of the provider's usual and customary charge to the general public.

Alternate dispensing fee formulas are used for certain specialty products including home infusion and intravenous (IV) therapy. Current reimbursement rates are a daily fee of $22.40 for outpatient antibiotic therapy and a daily fee of $16.80 for home IV therapy in a long-term care facility setting.[4]

Program Utilization

Myers and Stauffer received a pharmacy provider file from the Department. This file included all pharmacies receiving Nevada Medicaid reimbursement during the time period of July 1, 2006 to June 30, 2007.

Based on the information in the provider file, for the twelve month time period of data summarized, the Nevada Medicaid pharmacy program reimbursed:

- Approximately 13.3 million prescriptions.
- Approximately $79.4 million for prescription drug products.

[4] See *Nevada Medicaid and Nevada Check Up Pharmacy Provider Billing Manual* (updated 5/4/2007), p. 38.

Based on the data in the provider file, approximately 464 pharmacy providers participate in the Nevada Medicaid pharmacy program. Approximately 84% of the pharmacies in the provider file were chain-affiliated, and 16% were independently-owned stores. Chain-affiliated pharmacies were responsible for approximately 72% of the Nevada Medicaid prescription volume.

The average Nevada Medicaid volume for enrolled pharmacies was approximately 2,856 prescriptions. The median Nevada Medicaid volume for enrolled pharmacies was approximately 1,582 prescriptions.

Myers and Stauffer also obtained a drug utilization summary file for Nevada Medicaid from the CMS web site.[5] This file summarized pharmacy claims processed for calendar year 2006. Information from this file indicates that the Nevada Medicaid fee-for service pharmacy program reimbursed:

- Approximately 10,555 drug products.
- 1.02 million prescriptions.
- $80.1 million for prescription drug products.

Although approximately 37.5% of the 10,555 drug products and 46.7% of the 1.02 million prescriptions were products with an FUL price, these products account for only 13.3% ($10.6 million) of the expenditures. The majority of the program's expenditures, 86.7% ($69.5 million), were for drugs without an FUL price. This includes single source (i.e., "brand name") drug products as well as multi-source products without an FUL that may have a SMAC price set by the Department.

FUL prices are set by CMS. Through December 2007, FUL prices were based on 150% of the lowest wholesale price listed in any of the various published sources of cost information of drugs.

Recent changes enacted by the Deficit Reduction Act of 2005 (DRA) will modify the methodology for calculating FUL prices. Per the DRA, beginning January 1, 2007, FUL prices are required to be based on 250% of the "average manufacturer price" (AMP).[6] The AMP was previously defined by Section 1927 of the Social Security Act as part of the Medicaid drug rebate program. Significant concern has existed among stakeholders in the pharmacy industry

[5] See http://www.cms.hhs.gov/MedicaidDrugRebateProgram/SDUD/list.asp

[6] See Public Law 109-171, Section 6001(a)(2).

regarding the precise manner in which CMS will calculate FUL prices under the new statutory guidelines.[7]

Implementation of the AMP-based FUL prices did not begin on January 1, 2007 as specified in the DRA. Proposed regulations from CMS relating to the calculation of FUL prices based on the AMP were published in the *Federal Register* on December 22, 2006. A final rule was published on July 17, 2007. Changes to the methodology to calculate FUL prices are codified at 42 CFR 447.514.[8] Although the final rule to implement changes to FUL pricing is effective October 1, 2007, CMS anticipates that new FUL prices will not be published until December 2007.[9]

Table 2.1 summarizes the Nevada Medicaid pharmacy program's expenditures by single source and multi-source categories. The table also subdivides drug products based on whether the product has a Federal Upper Limit.

[7] See, for example, Office of the Inspector General report A-06-06-00063, "Determining Average Manufacturer Prices for Prescription Drugs Under the Deficit Reduction Act of 2005", May 2006 and Government Accountability Office report GAO-07-239R, "Estimated 2007 Federal Upper Limits for Reimbursement Compared with Retail Pharmacy Acquisition Costs", December 2006.

[8] See "Medicaid Program; Prescription Drugs; Final Rule." Federal Register, 72: 136 (17 July 2007).

[9] See CMS State Medicaid Director Letter dated July 6, 2007 - SMDL #07-007.

Table 2.1 Summary of Nevada Medicaid Pharmacy Program Utilization

	Product Type[1]	Number of Drug Products[2]	Percent of Total Number of Drug Products	Number of Rxs	Percent of Total Number of Rxs	Amount Reimbursed	Percent of Program Expenditures
	Single Source Products	2,003	19.0%	0.30 million	29.3%	$56.6 million	70.7%
Multi-Source Products	Products with an FUL Price [3]	3,953	37.5%	0.48 million	46.7%	$10.6 million	13.3%
	Products without an FUL Price [3]	4,599	43.6%	0.25 million	24.1%	$12.8 million	16.0%
	Subtotal: Multi-Source Products	8,552	81.0%	0.72 million	70.7%	$23.4 million	29.3%
	Total: All Products	10,555	100.0%	1.02 million	100.0%	$80.1 million	100.0%

[1] Single source versus multi-source is based on the First DataBank field "Multi-Source/Single Source Indicator (NDCGI1)"
[2] Based on unique national drug code (NDC).
[3] Existence of FUL prices is based upon November 2006 prices.
Utilization figures were obtained from the Centers for Medicare and Medicaid Services and are for calendar year 2006.
Some totals may not sum due to rounding.

Chapter 3: Dispensing Cost Survey

The Nevada Department of Human Resources, Division of Health Care Financing and Policy, engaged Myers and Stauffer LC to perform a study of costs incurred by pharmacies participating in the Nevada Medicaid program to dispense prescription medications. There are two primary components related to the provision of prescription medications: dispensing cost and drug ingredient cost. Dispensing cost consists of the overhead and labor costs incurred by a pharmacy to fill prescription medications.

In its final rule to implement provisions of the Deficit Reduction Act of 2005 (DRA), the Centers for Medicare and Medicaid Services (CMS) have provided some basic guidelines for appropriate costs to be reimbursed via a Medicaid pharmacy dispensing fee. CMS guidelines state:

> *"Dispensing fee means the fee which—*
>
> *(1) Is incurred at the point of sale or service and pays for costs in excess of the ingredient cost of a covered outpatient drug each time a covered outpatient drug is dispensed;*
>
> *(2) Includes only pharmacy costs associated with ensuring that possession of the appropriate covered outpatient drug is transferred to a Medicaid recipient. Pharmacy costs include, but are not limited to, reasonable costs associated with a pharmacist's time in checking the computer for information about an individual's coverage, performing drug utilization review and preferred drug list review activities, measurement or mixing of the covered outpatient drug, filling the container, beneficiary counseling, physically providing the completed prescription to the Medicaid beneficiary, delivery, special packaging, and overhead associated with maintaining the facility and equipment necessary to operate the pharmacy; and*
>
> *(3) Does not include administrative costs incurred by the State in the operation of the covered outpatient drug benefit including systems costs for interfacing with pharmacies."* [10]

In order to determine costs incurred to dispense pharmaceuticals to Medicaid recipients in the state of Nevada, Myers and Stauffer utilized a survey method

[10] See "Medicaid Program; Prescription Drugs; Final Rule." Federal Register, 72: 136 (17 July 2007), p. 39240. These guidelines are codified at 42 CFR 47.502.

consistent with CMS guidelines and the methodology of previous surveys conducted by Myers and Stauffer in several states.

Methodology of the Dispensing Cost Survey

Survey Distribution

Myers and Stauffer obtained from the Department a list of pharmacy providers currently enrolled in the Medicaid program. There were 464 pharmacy providers enrolled in the Medicaid program with paid claims between July 1, 2006 and June 30, 2007. All 464 of these pharmacies were requested to submit survey information for this study. Survey forms were initially distributed on September 24, 2007. Each pharmacy received a copy of the cost survey (Exhibit 1), a list of instructions (Exhibit 2), a letter of introduction from the Department of Human Resources, Division of Health Care Financing and Policy (Exhibit 3), and a letter of explanation from Myers and Stauffer (Exhibit 4a and Exhibit 4b).

Concerted efforts to encourage participation were made to enhance the survey response rate. Myers and Stauffer sent additional letters reminding pharmacies of the survey on October 11, 2007 (see Exhibits 5a and 5b) and October 24, 2007 (see Exhibits 6a and 6b). The survey forms, instructions and a letter of explanation from Myers and Stauffer offered pharmacy owners the option of having Myers and Stauffer complete certain sections of the survey form if copies of financial statements and/or tax returns were supplied. A toll-free telephone number was listed on the survey form, and pharmacists were urged to call to resolve any questions they had concerning completion of the survey form.

Of the 464 surveyed pharmacies, 29 pharmacies were determined to be ineligible to participate (based on the returned surveys). Providers were deemed ineligible if they had closed their pharmacy, had a change of ownership, or had less than six months of cost data available (e.g., due to a pharmacy that recently opened, or changed ownership).

Surveys were accepted through November 20, 2007. As indicated in Table 3.1, there were 294 pharmacies (out of 435 eligible pharmacies) that submitted a usable cost survey for this study, which is a response rate of 67.6%.

The following table, 3.1, summarizes the cost survey response rate.

Table 3.1 Pharmacies Responding to Dispensing Cost Survey

Type of Pharmacy	Total Medicaid Enrolled Pharmacies	Pharmacies Receiving Cost Surveys	Pharmacies Exempt or Ineligible from Filing	Eligible Pharmacies	Usable Cost Surveys Received	Response Rate
Chain	388	388	25	363	276	76.0%
Independent	76	76	4	72	18	25.0%
TOTAL	**464**	**464**	**29**	**435**	**294**	**67.6%**
Urban	401	401	22	379	258	68.1%
Rural	63	63	7	56	36	64.3%
TOTAL	**464**	**464**	**29**	**435**	**294**	**67.6%**

Tests for Reporting Bias

For the pharmacy traits of affiliation (i.e., chain or independent) and location (i.e., urban or rural), the set of surveys included in the dispensing cost analysis was tested to determine if it was representative of the population of Medicaid provider pharmacies. Since the response rate of the sample pharmacies was less than 100 percent, the possibility of bias in the responding sample should be considered. To measure the likelihood of this possible bias, chi-square (χ^2) tests were performed. A χ^2 test evaluates differences between proportions for two or more groups in a data set.

Of the 294 usable cost surveys, 18 were from independent pharmacies and 276 were from chain pharmacies. There was a notable over representation of chain pharmacies (a response rate of 76.0% for chain pharmacies compared to a response rate of 25.0% for independent pharmacies).

A χ^2 test was also performed with respect to the urban versus rural location of the pharmacy. [11] There was a response rate of 68.1% for urban pharmacies compared to a response rate of 64.3% for rural pharmacies. The results of the χ^2 test indicated that representation of pharmacies by urban or rural location was within sampling tolerances.

[11] For measurements that refer to the urban or rural location of a pharmacy, Myers and Stauffer used the pharmacies' zip code and tables from the U.S. Census Bureau to determine if the pharmacy was located in a Metropolitan Statistical Area (MSA). Pharmacies in an MSA were assigned an "urban" location flag; other pharmacies were assigned a "rural" location flag. Zip codes can overlap county lines; therefore the mapping of zip codes into counties and a corresponding MSA should be considered an approximation.

Receipt and Review Procedures

For confidentiality purposes, each pharmacy was randomly assigned a four-digit identification number and each cost survey was carefully examined. A desk review was performed for each survey received. This review identified incomplete cost surveys, and pharmacies submitting these cost surveys were contacted by telephone to obtain information necessary for completion.

Cost Finding Procedures

For all pharmacies, the basic formula used to determine the average dispensing cost per prescription was to calculate the total dispensing-related cost and divide it by the total number of prescriptions dispensed:

$$\text{Average Dispensing Cost} = \frac{\text{Total (Allowable) Dispensing Related Cost}}{\text{Total Number of Prescriptions Dispensed}}$$

Determining the result of this equation becomes more complex since not all costs are strictly related to the prescription dispensing function of the pharmacy. Most pharmacies are also engaged in lines of business other than the dispensing of prescription drugs. For example, many pharmacies have a retail business with sales of over-the-counter (OTC) drugs and other non-medical items. Some pharmacies are involved in the sale of durable medical equipment. The existence of these other lines of business necessitates that procedures be taken to isolate the costs involved in the prescription dispensing function of the pharmacy.

Cost finding is the process of recasting cost data using rules or formulas in order to accomplish an objective. In this study, the objective is to estimate the cost of dispensing prescriptions to Medicaid recipients. To accomplish this objective, some pharmacy costs must be allocated between the prescription dispensing function and other business activities. This process identified the reasonable and allowable costs necessary for prescription dispensing to Medicaid recipients.

Dispensing cost consists of two main components: overhead and labor. The cost finding rules employed to determine each of these components are described in the following sections.

Overhead Costs

Overhead cost per prescription was calculated by summing the allocated overhead of each pharmacy and dividing this sum by the number of prescriptions dispensed. We allocated overhead expenses that were reported for the entire

pharmacy to the prescription department based on one of the following allocation methods:

- Sales ratio – prescription sales divided by total sales.
- Area ratio – prescription department floor space (in square feet) divided by total floor space.
- All, or 100% – overhead costs that are entirely related to prescription functions.
- None, or 0% – overhead costs that are entirely related to non-prescription functions.

Overhead costs that were considered *entirely prescription-related* include:

- Prescription department licenses.
- Prescription delivery expense.
- Prescription computer expense.
- Prescription containers and labels (For many pharmacies the costs associated with prescription containers and labels is captured in their cost of goods. Subsequently, it was often the case that a pharmacy was unable to report expenses for prescription containers and labels. In order to maintain consistency, a minimum allowance for prescription containers and labels was determined to use for pharmacies that did not report an expense amount for containers and labels. The allowance was set at the 95th percentile of prescription containers and labels expense per prescription for pharmacies that did report prescription containers and labels expense: $0.3097 per prescription).
- Certain other expenses that were separately identified on lines 27-29 [12] of the cost survey (Exhibit 1).

Overhead costs that were *not allocated as a prescription expense* include:

- Income taxes [13]
- Bad debts [14]

[12] "Other" expenses were analyzed to determine the appropriate basis for allocation of each expense: sales ratio, area ratio, 100% related to dispensing cost or 0% (not allocated).

[13] Income taxes are not considered an operational cost because they are based upon the profit of the pharmacy operation. Although a separate line was provided for the state income taxes of corporate filers, these costs were not included in this study as a prescription cost. This provides equal treatment to each pharmacy, regardless of the type of ownership.

- Advertising [15]
- Charitable Contributions [16]

Certain costs reported on Lines 27, 28, and 29 of the cost survey were occasionally excluded. An example is freight expense, which usually relates only to nonprescription purchases or cost of goods sold.

The remaining expenses were assumed to be related to *both prescription and nonprescription sales*. Joint cost allocation is necessary to avoid understating or overstating the cost of filling a prescription.

Those overhead costs allocated on the *area ratio* (as previously defined) include:

- Depreciation
- Real estate taxes
- Rent [17]
- Repairs
- Utilities

---

[14] The exclusion of bad debts from the calculation of dispensing costs is consistent with Medicare cost reporting principles. See Provider Reimbursement Manual, CMS Pub.15-1, Section 304. "The allowance of unrecovered costs attributable to such bad debts in the calculation of reimbursement by the Program results from the expressed intent of Congress that the costs of services covered by the Program will not be borne by individuals not covered, and the costs of services not covered by the Program will not be borne by the Program." It is recognized that some bad debts may be the result of Medicaid co-payments that were not collected. However, it was not possible to isolate the amount of bad debts attributable to uncollected Medicaid co-payments from the survey data. Additionally, there may be programmatic policy reasons to exclude uncollected Medicaid co-payments from the calculation of the cost of dispensing. Inclusion of cost for uncollected co-payments in the dispensing fee might serve to remove incentives for pharmacies to collect Medicaid co-payments when applicable. Given that co-payments were established to bring about some measure of cost containment, it may not be in the best interest of a Medicaid pharmacy program to allow uncollected co-payments to essentially be recaptured in a pharmacy dispensing fee.

[15] The exclusion of most types of advertising expense is consistent with Medicare cost reporting principles. See Provider Reimbursement Manual, CMS Pub. 15.1, Section 2136.2. "Costs of advertising to the general public which seeks to increase patient utilization of the provider's facilities are not allowable."

[16] Individual proprietors and partners are not allowed to deduct charitable contributions as a business expense for federal income tax purposes. Any contributions made by their business are deducted along with personal contributions as itemized deductions. However, corporations are allowed to deduct contributions as a business expense for federal income tax purposes. Thus, while Line 19 on the cost report recorded the business contributions of a corporation, none of these costs were allocated as a prescription expense. This provides equal treatment for each type of ownership.

[17] The survey instrument included these special instructions for reporting rent: "Overhead costs reported on the cost report must be resulting from arms-length transactions between non-related parties. Related parties include, but are not limited to, those related by family, by business or financial association, and by common ownership or control. The most common non-arms-length transaction involves rental of property between related parties. The only allowable expense of such transactions for cost determination purposes would be the actual costs of ownership (depreciation, taxes, interest, etc., for the store area only)." This treatment of related-party expenses is consistent with Medicare cost reporting principles. See Provider Reimbursement Manual, CMS Pub. 15-2, Section 3614: "Cost applicable to home office costs, services, facilities, and supplies furnished to you by organizations related to you by common ownership or control are includable in your allowable cost at the cost to the related organizations. However, such cost must not exceed the amount a prudent and cost conscious buyer pays for comparable services, facilities, or supplies that are purchased elsewhere."

The costs in these categories were considered a function of floor space.[18] The floor space ratio was increased by 50% from that reported on the original cost survey to allow for waiting and counseling areas for patients and prescription department office area. The resulting ratio was adjusted downward, when necessary, not to exceed the sales ratio (in order to avoid allocating 100% of these costs in the instance where the prescription department occupies the majority of the area of the store).

Overhead costs allocated using the *sales ratio* include:

- Personal property taxes
- Other taxes
- Insurance
- Interest
- Accounting and legal fees
- Telephone and supplies
- Dues and publications

Labor Costs

Labor costs are calculated by allocating total salaries, payroll taxes, and benefits based on the percent of time spent in the prescription department. The allocations for each labor category were summed and then divided by the number of prescriptions dispensed to calculate labor cost per prescription. There are various classifications of salaries and wages requested on the cost survey (Lines 31-44) due to the different cost treatment given to each labor classification.

Although some employee pharmacists spent a portion of their time performing nonprescription duties, it was assumed in this study that their economic productivity when performing nonprescription functions was less than their productivity when performing prescription duties. The total salaries, payroll taxes, and benefits of employee pharmacists (Lines 34-38 of the cost survey) were multiplied by a factor based upon the percent of prescription time. Therefore, a higher percentage of salaries, payroll taxes, and benefits was allocated to prescription labor costs than would have been allocated if a simple percent of time allocation were utilized. Specifically, the percent of prescription time indicated was adjusted by the following formula: [19]

[18] Allocation of certain expenses using a ratio based on square footage is consistent with Medicare cost reporting principles. See Provider Reimbursement Manual, CMS Pub. 15-2, Section 3617.

$$\frac{(2)(\%Rx\ Time)}{(1+(\%Rx\ Time))}$$

The allocation of salaries, payroll taxes, and benefits for all other prescription employees (Lines 39-43) was based directly upon the percentage of time spent in the prescription department as indicated on the individual cost survey. For example, if the reported percentage of prescription time was 75 percent and total salaries were $10,000, then the allocated prescription cost would be $7,500.

Owner Compensation Issues

Since compensation reported for pharmacy owners are not costs that have arisen from arm's length negotiations, they are not similar to other costs. A pharmacy owner has a different approach toward other expenses than toward his/her own salary. In fact, owners often pay themselves above the market costs of securing the services of an employee to perform similar services. This excess effectively represents a withdrawal of business profits, not a cost of dispensing. Some owners may underpay themselves for business reasons, which would also misrepresent the true dispensing cost.

For purposes of calculating a cost of dispensing that was not distorted by salaries that did not result from arm's-length transactions, Myers and Stauffer applied upper and lower limits to owner salaries. The limits were applied differently for owners that were pharmacists and owners that were not pharmacists.

Determining Compensation Allowances for Owner Pharmacists

For owners that were pharmacists, the allocation of salaries, payroll taxes, and benefits (Lines 31-33) was based upon the same modified percentage as that used for employee pharmacists. However, limitations were placed upon the allocated salaries, payroll taxes, and benefits of owner pharmacists. A factor considered in determining the allocation of owner's salaries was the variability in productivity. For example, one owner pharmacist may dispense 30,000 prescriptions per year while another may dispense 5,000. Those owner pharmacists who dispensed a greater number of prescriptions were allowed a higher salary than were owner pharmacists who dispensed a smaller number of prescriptions. Since variance is not nearly as great with respect to employee pharmacists, the owner pharmacist's salary was subjected to limits based upon employee pharmacists' salaries per prescription.

[19] Example: An employee pharmacist spends 90 percent of his/her time in the prescription department. The 90 percent factor would be modified to 95 percent: (2)(0.9)/(1+0.9) = 0.95. Thus, 95 percent of the reported salaries, payroll taxes, and benefits would be allocated to the prescription department. It should be noted that most employee pharmacists spent 100 percent of their time in the prescription department.

To estimate the cost that would have been incurred had an employee been hired to perform the prescription-related functions actually performed by the owner, a statistical regression technique was used. A bivariate plot shows the correlation between an independent (predictor) variable and a dependent (predicted) variable (Exhibit 7). The upper and lower limits on owner pharmacist salary were determined from a bivariate regression.[20] In order to accurately reflect the trend of decreasing marginal costs with increasing volume, a regression technique that fit the bivariate data to a logarithmic curve was used. The resulting regression equation to predict pharmacist labor cost at varying amounts of work performed is:

Labor cost = 59,294 X ln (number of prescriptions dispensed [21]) –444,981

(where ***ln*** represents the natural logarithm function)

This equation was used to establish limits for allocating owner pharmacist costs. There was variation in actual employee salaries both above and below this regression line. This variation is measured by the equation's *standard error of the estimate*, $31,127. The standard error of the estimate was used to construct upper and lower limits of owner pharmacist labor cost:

Upper Limit = 59,294 X ln (number of prescriptions dispensed) – 393,782
Lower Limit = 59,294 X ln (number of prescriptions dispensed) – 461,304

These two constraints effectively set upper and lower thresholds at approximately the 30th and 95th percentiles of volume adjusted employee salaries. Additionally, absolute constraints were set at a $201,607 maximum salary and a $24,552 minimum salary. These amounts were set at the 30th and 95th percentile of volume adjusted employee salaries.

Determining Compensation Allowances for Owner Non-Pharmacists

Salary limits were also applied to owner non-pharmacists, but were applied in a different manner. As with other owners, the amount shown for salaries, payroll taxes, and benefits was not a result of arm's length negotiations. Therefore, an upper limit of $165,160 and a lower limit of $24,552 were placed upon these labor costs. These limits were based on an analysis of salaries of employee pharmacists and were adjusted based on the reported time worked by the owner non-pharmacist.

[20] Employee pharmacist salary per prescription was used to set limitations on owner pharmacist salary estimates due to the "arm's length" nature and lack of variance in employee productivity compared with owner productivity.

[21] The number of prescriptions filled by the owner pharmacist was determined by multiplying the percent of owner-filled prescriptions (Lines 31-33 of the cost report) by the total number of prescriptions dispensed (Line a).

Sensitivity Analysis of Owner Compensation Limits

A sensitivity analysis of the owner labor limits was performed in order to determine the impact of the limits on the overall analysis of pharmacy dispensing cost. Of the 294 pharmacies in the cost analysis, owner limits impacted 10 pharmacies, or approximately 3%. Of these, only one pharmacy had cost reduced as a result of application of these limits (on the basis that a portion of owner salary "cost" appeared to represent a withdrawal of profits from the business), and 9 pharmacies had cost increased as a result of the limits (on the basis that owner salaries appeared to be below their market value). In total, the final estimate of average pharmacy dispensing cost per prescription was *increased* by approximately $0.024 as a result of the owner salary limits.

Overall Labor Cost Constraints

An overall constraint was placed on the proportion of total reported labor that could be allocated as prescription labor. The constraint assumes that a functional relationship exists between the proportion of allocated prescription labor to total labor and the proportion of prescription sales to total sales. It is also assumed that a higher input of labor costs is necessary to generate prescription sales than nonprescription sales, within limits.

The parameters of the applied labor constraint are based upon an examination of data submitted by all pharmacies. These parameters are set in such a way that any resulting adjustment affects only those pharmacies with a percentage of prescription labor deemed unreasonable. For instance, the constraint would come into play for an operation that reported 75 percent pharmacy sales and 100 percent pharmacy labor (obviously, some labor must be devoted to generating the 25 percent nonprescription sales).

To determine the maximum percentage of total labor allowed, the following calculation was made:

$$\frac{0.3(\text{Sales Ratio})}{0.1+(0.2)(\text{Sales Ratio})}$$

A sensitivity analysis of the labor cost restraint was performed in order to determine the impact of the limit on the overall analysis of pharmacy cost. The analysis indicates that of the 294 pharmacies included in the dispensing cost analysis, this limit was applied to 19 pharmacies. The final estimate of average pharmacy dispensing cost per prescription was *decreased* by approximately $0.038 as a result of this limit.

Inflation Factors

All allocated costs for overhead and labor were totaled and multiplied by an inflation factor. Inflation factors are intended to reflect cost changes from the middle of the reporting period of a particular pharmacy to a common fiscal period ending December 31, 2007 (specifically from the *midpoint* of the pharmacy's fiscal year to the *midpoint* of the common fiscal period, June 30, 2007). The midpoint and terminal month indices used were taken from the Employment Cost Index (ECI) (all civilian, all workers; seasonally adjusted) as published by the Bureau of Labor Statistics (see Exhibit 8). The use of inflation factors is preferred in order for pharmacy cost data from various fiscal years to be compared uniformly.

Dispensing Cost Analysis and Findings

The dispensing costs for all pharmacies in the sample are summarized in the following tables and paragraphs. Findings for all pharmacies in the sample are presented collectively, and additionally are presented for subsets of the sample based on pharmacy characteristics. There are several statistical measurements that may be used to express the central tendency of a distribution, the most common of which are the average, or mean, and the median. Findings are presented in the forms of means and medians, both raw and weighted. [22]

As is typically the case with dispensing cost surveys, statistical "outliers" are a common occurrence. These outlier pharmacies have dispensing costs that are not typical of the majority of pharmacies. Medians are sometimes preferred to averages (i.e., the arithmetic mean) in situations where the magnitude of outlier values results in an average that does not represent what is thought of as "average" or normal in the common sense.

For all pharmacies in the sample, findings are presented in Table 3.2.

Table 3.2 Dispensing Cost Per Prescription – All Responding Pharmacies

	Dispensing Cost
Unweighted Average (Mean)	$12.46
Average (Mean) Weighted by Medicaid Volume	$10.71
Unweighted Median	$11.11
Median Weighted by Medicaid Volume	$9.46

(Dispensing Costs have been inflated to the common point of June 30, 2007)

See Exhibit 9 for a histogram of the dispensing cost for all pharmacies in the sample. There was a large range between the highest and the lowest dispensing

[22] **Different Measures of Central Tendency:**
Unweighted mean: the arithmetic average cost for all pharmacies.

Weighted mean: the average cost of all prescriptions dispensed by pharmacies included in the sample, weighted by prescription volume. The resulting number is the average cost for all prescriptions, rather than the average for all pharmacies as in the unweighted mean. This implies that low volume pharmacies have a smaller impact on the weighted average than high volume pharmacies. This approach, in effect, sums all costs in the sample and divides that sum by the total of all prescriptions in the sample. The weighting factor can be either total prescription volume or Medicaid prescription volume.

Median: the value that divides a set of observations (such as dispensing cost) in half. In the case of this survey, the median is the dispensing cost such that the cost of one half of the pharmacies in the set are less than or equal to the median and the dispensing costs of the other half are greater than or equal to the median.

Weighted Median: this is determined by finding the pharmacy observation that encompasses the middle value prescription. The implication is that one half of the prescriptions were dispensed at a cost of the weighted median or less, and one half were dispensed at the cost of the weighted median or more. Suppose, for example, that there were 1,000,000 Medicaid prescriptions dispensed by the pharmacies in the sample. If the pharmacies were arrayed in order of dispensing cost, the median weighted by Medicaid volume, is the dispensing cost of the pharmacy that dispensed the middle, or 500,000th prescription.

cost observed for pharmacies in the sample. However, the majority of pharmacies (80%) had dispensing costs between approximately $7.50 and $18.50.

Additional statistical measures of pharmacy dispensing cost are provided in Exhibit 10. For measurements that refer to the urban or rural location of a pharmacy, Myers and Stauffer used the pharmacies' zip code and tables from the U.S. Census Bureau to determine if the pharmacy was located in a Metropolitan Statistical Area (MSA). Pharmacies in an MSA were assigned an "urban" location flag; other pharmacies were assigned a "rural" location flag. A table of zip codes and their designation as urban or rural is included at Exhibit 11.

The relationship between total prescription volume and dispensing cost was especially pronounced. Pharmacies were classified into meaningful groups based upon their differences in total prescription volume. Dispensing costs were analyzed based upon these volume classifications.

Table 3.3 Dispensing Cost by Pharmacy Total Annual Prescription Volume

Total Annual Prescription Volume of Pharmacy	Number of Stores	Unweighted Average (Mean) Dispensing Cost	Average (Mean) Weighted by Medicaid Volume
0 to 24,999	54	$19.77	$17.87
25,000 to 34,999	56	$11.80	$11.05
35,000 to 49,999	68	$11.16	$10.13
50,000 to 69,999	50	$10.97	$11.13
70,000 and Higher	66	$9.51	$9.17

There is a significant correlation between a pharmacy's total prescription volume and the dispensing cost per prescription. This result is not surprising because many of the costs associated with a business operation, including the dispensing of prescriptions, have a fixed component that does not vary significantly with increased volume. For stores with a higher total prescription volume, these fixed costs are spread over a greater number of prescriptions resulting in lower costs per prescription. A number of relatively low volume pharmacies in the survey skew the distribution of dispensing cost and increase the measurement of the unweighted average (mean) cost of dispensing.

Table 3.4 Statistics for Pharmacy Total Annual Prescription Volume

Statistic	Value
Mean	55,796
Standard Deviation	53,247
10th Percentile	18,921
25th Percentile	29,110
Median	42,342
75th Percentile	61,966
90th Percentile	102,233

A histogram of pharmacy total annual prescription volume and a scatter-plot of the relationship between dispensing cost per prescription and total prescription volume are included in Exhibit 12.

Several pharmacy attributes were collected on the cost survey. A summary of these attributes is provided at Exhibit 13.

Components of Dispensing Cost

The dispensing cost of the surveyed pharmacies was broken down into the various components of overhead and labor related costs. Table 3.5 displays the means of the various cost components for pharmacies in the sample. Labor-related expenses accounted for approximately 73% of overall prescription dispensing costs.

Expenses in Table 3.5 are classified as follows:

- Owner professional labor – owner's labor costs were subject to constraints in recognition of its special circumstances as previously noted.
- Employee professional labor consists of employee pharmacists. Other labor includes the cost of delivery persons, interns, technicians, clerks and any other employee with time spent performing the prescription dispensing function of the pharmacy.
- Building and equipment expense includes depreciation, rent, building ownership costs, repairs, utilities and any other expenses related to building and equipment.
- Prescription-specific expense includes pharmacist-related dues and subscriptions, prescription containers and labels, prescription-specific computer expenses, prescription-specific delivery expenses (other than direct labor costs) and any other expenses that are specific to the prescription dispensing function of the pharmacy.

- Other overhead expenses consist of all other expenses that were allocated to the prescription dispensing function of the pharmacy including interest, insurance, telephone, and legal and professional fees.

Table 3.5 Components of Prescription Dispensing Cost

Type of Expense	Unweighted Average (Mean) Dispensing Cost	Average (Mean) Weighted by Medicaid Volume
Owner Professional Labor	$0.245	$0.324
Employee Professional and Other Labor	$9.245	$7.502
Building and Equipment	$1.058	$0.907
Prescription Specific Expenses (incl. delivery)	$0.943	$1.008
Other Overhead Expenses	$0.971	$0.968
Total	**$12.462**	**$10.709**

A pie chart of the components of prescription dispensing cost is provided in Exhibit 14.

Expenses Not Allocated to the Cost of Dispensing

In the following Table 3.6, measurements are provided for certain expenses that were not included in the cost of dispensing. Reasons for not including these costs were discussed previously. For all of the expenses below, average cost per prescription was calculated using a sales ratio as the basis for allocation.

Table 3.6 Non-Allocated Expenses Per Prescription

Expense Category	Unweighted Average (Mean) Cost	Average (Mean) Weighted by Medicaid Volume
Bad Debts	$0.032	$0.036
Charitable Contributions	$0.001	$0.001
Advertising	$0.705	$0.597

Exhibit 1
Nevada Medicaid
Pharmacy Cost Report

M&S Use Only

Nevada Medicaid Pharmacy Cost Report

Medicaid Provider No.

Return Completed Forms to:
Myers and Stauffer LC
11440 Tomahawk Creek Parkway
Leawood, Kansas 66211

2007

Under Contract with the Nevada Department of Human Resources, Division of Health Care Financing and Policy

ROUND ALL AMOUNTS TO NEAREST DOLLAR OR WHOLE NUMBER
Complete and return by **October 19, 2007**
Instructions are enclosed. Call toll free (800) 374-6858 if you have any questions.

Name of Pharmacy _____ Telephone No. (____) _____
Street Address _____ Fax No. (____) _____
City _____ County _____ State _____ Zip Code _____

DECLARATION BY OWNER AND PREPARER

I declare that I have examined this cost report including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, complete, and in agreement with the related financial statements or federal income tax return, except as explained in the reconciliation. Declaration of preparer (other than owner) is based on all information of which preparer has any knowledge.

Your Signature	Print/Type Name	Title/Position	Date

Preparer's Signature (other than owner)	Title/Position	Date

Preparer's Street Address	City and State	Zip	Phone Number

SECTION IA -- PHARMACY ATTRIBUTES

(a) **List the total number of all prescriptions dispensed during the fiscal year as follows:**

New _____ **Refill** _____ **Total** _____

(b) Type of Ownership
1. ☐ Individual 2. ☐ Corporation 3. ☐ Partnership 4. ☐ Other

(c) Location
1. ☐ Medical Office Building 2. ☐ Shopping Center
3. ☐ Separate or downtown 4. ☐ Grocery Store / Mass Merchant
5. ☐ Other (specify) _____

(d) Ownership Affiliation
1. ☐ Independent (1-10 Units) 2. ☐ Chain (11 or more units nationally)
3. ☐ Institutional (service to long-term care facilities only) 4. ☐ Other (specify) _____

(e) Do you own your building or lease from a related party (i.e., yourself, family member, or related corporation)? If so, mark yes.
1. ☐ Yes 2. ☐ No

(f)	What is the approximate percent of your prescriptions dispensed to long-term care facilities?_____
(g)	Do you dispense in anything other than traditional packaging to long-term care facilities? If yes, indicate how: 1. ☐ Unit Dose 2. ☐ Modified Unit Dose (Bingo cards/blister packs) 3. ☐ Both 4. ☐ No Unit Dose What is the approximate percent of all prescriptions dispensed in unit dose packaging? _____%
(h)	If you checked box 1, 2, or 3 of (h), what percent of unit dose packaging is: 1. Purchased from manufacturers _____% 2. Prepared in the pharmacy _____%
(i)	What percent of total prescriptions filled are delivered? _____
(j)	What percent of Medicaid prescriptions filled are delivered? _____
(k)	Are you presently providing any of the following specialty products or services: IV, infusion, enteral nutrition and/or blood factors or derivatives? 1. ☐ Yes 2. ☐ No If yes, what is the dollar amount of your sales for IV / infusion Rxs $_____, enteral nutrition Rxs $_____ and blood factors or derivatives $_____
(l)	What is the approximate percent of your prescriptions dispensed that are compounded? _____%
(m)	How many hours per week is your pharmacy open? _____ Hours
(n)	How many years has a pharmacy operated at this location? _____ Years
(o)	Do you provide 24-hour emergency services for pharmaceuticals? 1. ☐ Yes 2. ☐ No
(p)	What is the approximate percentage of prescriptions dispensed for the following classifications? 1. Medicaid _____% 2. Other 3rd Party _____% 3. Cash _____% What is the approximate percentage of payments received from the following classifications? 1. Medicaid _____% 2. Other 3rd Party _____% 3. Cash _____%

SECTION IB -- OTHER INFORMATION

List any additional information you feel contributes significantly to your cost of filling a prescription. Also, if you have a significant amount of non-retail sales of drugs at cost, please note the amount and if it is included in line (1), column (1) on page 3.

Round all amounts to nearest dollar or whole number.

SECTION IIA -- SALES AND FLOOR SPACE

	Prescription Drugs Only	Total Store Including Prescription Drugs	Line No.
Sales (Excluding Sales Tax)			(1)
Cost of Goods Sold			(2)
Floor Space (Retail area only). Measure. Do not estimate.	Sq. Ft	Sq. Ft.	(3)

SECTION IIB -- OVERHEAD EXPENSES

Complete this section using your internal financial statement or tax return. If you are using a tax return, please refer to the line numbers in the left columns that correspond to federal income tax return lines.

The following information is from fiscal / tax year ending…….. _____ /_____ /_____ (4)

2006 Tax Form Number						Total Expense	Myers and Stauffer Use Only	Line No.
1040C	1065	1120	1120S					
13	16a	20	14a	Depreciation (this fiscal year only - not accumulated)……..				(5)
23	14	17	12	Taxes	(a) Personal Property Taxes Paid……..			(6)
					(b) Real Estate Taxes……..			(7)
					(c) Payroll Taxes……...			(7a)
					(d) Sales Taxes……			(7b)
					(e) State Income Tax (Corporations Only)……			(8)
					(f) Any other taxes (specify each type and amount)			(9)
20b	13	16	11	Rent	(a) Building Rent (See Instructions)……			(10)
20a	13	16	11		(b) Equipment and Other……..			(11)
21	11	14	9	Repairs……				(12)
15	20	26	19	Insurance	(a) Workers Comp. and Employee Medical……..			(13)
15	20	26	19		(b) Other……			(14)
16a&b	15	18	13	Interest……				(15)
17	20	26	19	Legal and Professional Fees……				(16)
27	20	26	19	Dues and Publications……				(17)
27	12	15	10	Bad Debts (this fiscal year only - not accumulated)……				(18)
		19		Charitable Contributions (Corporations Only)……				(19)
25	20	26	19	Telephone……				(20)
25	20	26	19	Heat, Water, Lights, Sewer, Trash and other Utilities……..				(21)
18&22	20	26	19	Operating and Office Supplies (Exclude Rx containers and labels)…				(22)
8	20	23	16	Advertising……				(23)
27	20	26	19	Rx Computer Expenses (See Instructions)……				(24)
9,27	20	26	19	Rx Delivery Expenses (See Instructions)……				(25)
27	20	26	19	Rx Containers and Labels (See Instructions)……				(26)
Various	18+	24+	17+	Other Expenses (Not included elsewhere) _____				(27)
	19+	25+	18+	(Attach Schedule if necessary) _____				(28)
	20	26	19	(Specify each item and corresponding amount)_____				(29)
				Total Overhead Expenses [Add Line (5) through Line (29)]				(30)

SECTION IIC -- PERSONNEL COSTS -- List each person separately (except Line 44). Attach schedule if necessary.

	Check if RPh	Estimate Percent of Rxs Dispensed by Each RPh	Annual Salaries, Bonuses and/or Drawings	Myers and Stauffer USE ONLY	No. Weeks Employed This Fiscal Year	Average Weekly Hours: Total Store Including Rx Dept.	Average Weekly Hours: Rx Dept. Related Duties Only	Line No.
Owners, Individual Proprietors, Partners, and Stockholders……..								(31)
								(32)
								(33)
Employee and Relief Pharmacists…..								(34)
								(35)
								(36)
								(37)
								(38)
	Subtotal:	100%	XXXXX	XXXXX	XXXXX	XXXXX	XXXXX	(38a)
Other Employees with Time in Rx Dept. (Including Technicians, Delivery, etc.)…….	XXX	XXXXXXXXX						(39)
	XXX	XXXXXXXXX						(40)
	XXX	XXXXXXXXX						(41)
	XXX	XXXXXXXXX						(42)
	XXX	XXXXXXXXX						(43)
All Non-Rx Employees……..	XXX	XXXXXXXXX			XXXXX	XXXXX	XXXXX	(44)
TOTALS……	XXX	XXXXXXXXX			XXXXX	XXXXX	XXXXX	(45)

SECTION II D -- RECONCILIATION WITH FINANCIAL STATEMENT OR TAX RETURN

2006 Tax Form Number					Column 1	Column 2	
1040C	1065	1120	1120S		Cost Report Amounts	Financial Statement or Tax Return Amounts	
28	21	27	20	Total Expenses per Financial Statement or Tax Return …….			(46)
				Enter Amount from Line (30)……			(47)
				Enter Amount from Line (45)……			(48)
				Total Expenses per Cost Report [Add Lines (47) and (48)]……			(49)
				Specify Items with Amounts that are on Cost Report but not on Financial Statement or Tax Return _____			(50)
				_____			(51)
				Specify Items with Amounts that are on Financial Statement or Tax Return but not on this Cost Report _____			(52)
				_____			(53)
				Total [Add Lines (46) to (53)] Column Totals Must be Equal..			(54)

Exhibit 2
Nevada Medicaid
Pharmacy Cost Report
Instructions

Nevada Medicaid Pharmacy Cost Report
Instructions

Survey Forms by

Myers and Stauffer LC
Certified Public Accountants
11440 Tomahawk Creek Parkway
Leawood, Kansas 66211
800-374-6858

PURPOSE: The purpose of this survey is to determine the approximate cost of dispensing prescriptions in the State of Nevada.

WHO MUST FILE THIS FORM

Except for the following, all Nevada Medicaid pharmacies should file this cost report:

- ☐ New pharmacies that were in business less than six months during the reporting period
- ☐ Pharmacies with a change of ownership that resulted in less than six months in business during the reporting period

If your pharmacy meets either of the two exceptions listed above, check the box next to the explanation describing your business, write your pharmacy name and provider number, sign your name, and return only this page to the address above.

_____	_____	_____	_____
NV Medicaid Provider No.	Provider Name	Phone No.	Signature of Owner

GENERAL INSTRUCTIONS

If any assistance is needed in completing this survey, call toll-free (800) 374-6858. Complete these forms using your most recently completed fiscal year (e.g., December 31, 2006) and **return them by October 19, 2007**. Most retail pharmacies can complete the survey form by using their most recent annual financial statement or federal income tax return. If you are using an income tax return, most expense line items can be transferred directly from a line on a tax return to a line on the cost report. Line reference numbers of four tax forms are listed on the left side of the cost report. Simply locate the column for your tax form.

If you prefer, send us a copy of your financial statements or income tax return (Form 1065, 1120, 1120S, or Schedule C of Form 1040 including supporting schedules) and we will complete the overhead expenses, Section IIB, Page 3 and Section IID, Page 4, for you. **You will still need to fill in the remaining sections of the cost report.** If you send a copy of your financial statement or tax return, identify any expenses that are 100% Rx-Department expenses such as continuing education, and identify any expenses that are 100% non-Rx Department expenses.

Round all amounts to the nearest dollar or whole number.

Nevada Medicaid Pharmacy Cost Report – Instructions

Multiple Location/Chain Pharmacies
Central administration expenses incurred by multiple location and/or chain pharmacies shall be reported on lines 27, 28, and/or 29. Report the expense allocated to each store. Methods of allocation must be reasonable and conform to generally accepted accounting principles. Warehousing expense must be separately identified and entered on lines 27, 28 and/or 29.

SECTION IA --- PHARMACY ATTRIBUTES

The information gathered from your answers to these questions will be analyzed to determine its relationship to your cost of dispensing a prescription. It may be necessary to provide estimates for some answers; estimate as carefully and accurately as possible.

Line (a) **"Prescriptions Dispensed."** Report the total number of all prescriptions filled **during the fiscal year** of the costs reported on pages 3 and 4 of this cost report. This information may be kept on a daily or monthly log or on your computer.

SECTION IIA --- SALES AND FLOOR SPACE

Line (1) **List total store sales excluding sales tax.** Total store sales and cost of goods sold are shown on the federal income tax return. If there is no separate record of prescription drug sales, estimate it as accurately as possible. Sales of prescription drug items shall **NOT** include nonprescription OTC's, durable medical equipment, or other nonprescription items. One method to estimate sales of prescription drug items is to use a sales tax return. If Rx cost of goods sold is not readily available, leave that line blank.

Line (3) Since **floor space** will be used in allocating certain expenses, accuracy is important. When measuring the total store, include only the retail area and exclude any storage area, i.e., basement, attic, off-the-premises areas, or freight in-out areas. When measuring the Prescription Department, exclude patient waiting area and prescription-related office. These must be included in total store area. A factor is added to the Prescription Department area to account for both waiting and office space.

SECTION IIB --- OVERHEAD EXPENSES
[FINANCIAL STATEMENT OR TAX RETURN CAN BE SUBSTITUTED]

Overhead costs reported on the cost report must be resulting from arms-length transactions between non-related parties. Related parties include, but are not limited to, those related by family, by business or financial association, and by common ownership or control. **The most common non-arms-length transaction involves rental of property between related parties. The only allowable expense of such transactions for cost determination purposes would be the actual costs of ownership (depreciation, taxes, interest, etc., for the store area only). The rental amount will be disallowed. Show this as a reconciling item in Section IID.**

Line (6) & (7) Include only personal property taxes or real estate taxes paid on property used in this pharmacy's business.

Line (7a) Include the employer's share of FICA and Medicare taxes, and state and federal unemployment taxes.

Nevada Medicaid Pharmacy Cost Report – Instructions

Line (10) Include only rent that applies to the store. **Report only rental expense incurred by transactions between non-related parties. See the first paragraph of this section for expenses allowed in lieu of rent paid to a related party.**

Line (22) Include office and operating supplies. If prescription containers and labels are included in your supplies, exclude them from this line and show them on line (26).

Line (24) **Rx Computer Expenses.** Include expenses for computers that are used only in the Rx Department. These expenses shall not be duplicated on any other line. If your computers are used by other departments of the store, do not enter anything on this line and enter computer expenses on line (29).

Line (25) **Rx Delivery Expenses.** If you deliver Rx items only, include expenses paid for your delivery vehicle here, including expenses paid to a delivery service for delivery of Rx items. These expenses shall not be duplicated on any other line. If your delivery vehicle is used by other departments of the pharmacy or for miscellaneous purposes, do not enter anything on this line and enter delivery expenses on line (29).

Line (26) **Rx Containers and Labels.** The cost of prescription containers and labels shall be included here if separately identified on your financial statement or as "other deductions" on your federal income tax return. If this expense is included in cost of goods sold on your federal income tax return and if your accounting records are such that this figure is difficult to determine, leave this line blank. An allowance will be made for Rx containers and labels.

Lines (27)-(29) On these lines identify any non-labor expenses not already included on your cost report but listed on your financial statement or as other deductions on your federal income tax return. **Identify each item and the amount, rather than labeling all such expenses as "miscellaneous." If you wish, you can simply attach a schedule that lists these expenses.** Clearly label any items that are 100% Rx-related or that are 100% non-Rx-related.

SECTION IIC --- PERSONNEL COSTS [LINES (31)-(45)]

Lines (31)-(38) **"Percent of Prescriptions Dispensed."** Provide your best estimate of the percentage of prescriptions dispensed by each pharmacist. Notice: This column must total line 38a (100%).

Lines (31)-(43) **"Average Weekly Hours."** You may not have detailed records of where each employee worked; however, provide your best estimate of an average or "typical" week. Column 6 shall show average number of hours the employee worked per week. Column 7 shall show the average number of hours per week spent performing Rx-related duties. Rx-related duties are defined as time spent filling prescriptions as well as doing the related administrative work (e.g. third party reimbursement claims management), including ordering and stocking prescription ingredients, taking inventory, maintaining prescription files and delivering prescriptions. Pharmacists providing consultation to long-term care facilities must be identified and listed separately. Any revenue received for those consultation services shall be noted in Section IB, page 2.

Lines (31)-(33) **"Owners."** For purposes of this study, an employee who is a stockholder in the pharmacy is considered an "Owner." All individual proprietors, partners, or stockholders shall list their total drawings and/or salaries for the year. Do not show net profit as the

`owner's salary but **only actual drawings or salary**. For those owners who took no salary or drawings, show zero to indicate you have not overlooked this line. A salary will be allocated based on time and/or prescriptions dispensed.

Lines (39)-(43) Rx Technicians, nonprofessional, clerical, and delivery personnel who perform Rx-related duties shall be listed.

Line (44) **"All Non-Rx Employees."** List total salaries for all employees who spend no time in Rx-related duties.

SECTION IID --- RECONCILIATION WITH FINANCIAL STATEMENT OR FEDERAL INCOME TAX RETURN

The purpose of this reconciliation is to ensure that all expenses have been included and that none have been duplicated. For example, pharmacies operating as sole proprietors will normally need to list owner's salaries, drawings, and benefits as a reconciling item. Other examples of reconciling items are the 50% meals deduction, rent paid to related party, etc.

Exhibit 3
Letter from the Nevada Department of Human Resources, Division of Health Care Financing and Policy, Regarding Pharmacy Cost Survey

STATE OF NEVADA
DEPARTMENT OF HEALTH AND HUMAN SERVICES
DIVISION OF HEALTH CARE FINANCING AND POLICY
1100 E. William Street, Suite 101
Carson City, Nevada 89701

JIM GIBBONS
Governor

MICHAEL J. WILLDEN
Director

CHARLES DUARTE
Administrator

September 19, 2007

Dear Provider:

As a result of the Deficit Reduction Act of 2005 and related changes to federal pharmacy reimbursement policy, the Division is conducting a study to determine the average cost of filling a prescription in the State of Nevada. We have selected the accounting firm of Myers and Stauffer LC to conduct the survey. Myers and Stauffer has extensive experience in performing pharmacy cost studies and analyses for other states.

In order to assure a statistically valid and defensible analysis of your costs, it is imperative that you complete and return the survey in its entirety by the date specified in the survey packet. Should you need assistance in completing the survey, you may contact Myers and Stauffer using the toll-free number included in the survey instructions.

Myers and Stauffer and the Division guarantee confidentiality of your survey responses. In fact, the Division itself will not have access to pharmacy-specific data.

Results of the survey will be shared with the Retail Association of Nevada, local representatives of NACDS and other interested parties.

If you have any questions or concerns not adequately addressed by Myers and Stauffer, please feel free to contact John Kasnick, Chief of the Division's Rates and Cost Containment Unit at 775-684-3650.

Thank you for your cooperation.

Charles Duarte, Administrator

Exhibit 4a
Initial Letter from
Myers and Stauffer for
Pharmacy Cost Survey
(Independent Pharmacies)

Sample (Independent Pharmacies)

Myers and Stauffer LC
Certified Public Accountants

September 24, 2007

«prov_no» / «random»
«prov_name»
ATTENTION: OWNER OR MANAGER
«address»
«city», «state» «zip»

Dear Pharmacy Owner or Manager:

The Nevada Department of Human Resources, Division of Health Care Financing and Policy has contracted with Myers and Stauffer LC to conduct a pharmacy dispensing cost survey. All pharmacy providers in the state are requested to participate in the survey according to the following directions:

Dispensing Cost Survey

1. Complete and return the enclosed "Nevada Medicaid Pharmacy Cost Report." Please review the survey instructions.

2. Retain a copy of the completed survey forms for your records.

3. For your convenience, we will complete a portion of the survey for you upon receipt of your business federal income tax return (Forms 1065, 1120, 1120S or Schedule C of Form 1040 and accompanying schedules). If you choose this option, you will still need to complete the following sections of the cost report prior to submission:
   a. Pages 1 and 2 – Pharmacy attributes and other information
   b. Page 3 – Line 1 (column 1) – prescription sales, and line 3 (columns 1 and 2) – prescription area and total store area.
   c. Page 4 – Personnel costs – complete lines 31-45, all columns

4. If your financial statements or tax return have not been completed for your most current fiscal year, please file a cost report using your prior year's financial statements (or tax return) and the corresponding prescription data for that year. The data will be adjusted accordingly.

11440 Tomahawk Creek Parkway • Leawood, Kansas 66211
(913) 234-1166 • (800) 374-6858 • FAX (913) 234-1104

It is very important that all pharmacies cooperate fully by filing an accurate cost report. Pharmacies are encouraged to return the requested information as soon as possible, but **no later than October 19, 2007.**

Please send completed forms to:

Myers and Stauffer LC
Certified Public Accountants
11440 Tomahawk Creek Parkway
Leawood, Kansas 66211

Return the survey using the enclosed Business Reply Label with any envelope. Postage will be paid by Myers and Stauffer.

All cost reports will be reviewed by staff at Myers and Stauffer LC. If this review yields any need for additional inquiries, you will be contacted by letter or telephone. All information submitted will be held in strict confidence. If you have any questions, please call toll free at 1-800-374-6858. Your cooperation in providing the information for this study is greatly appreciated.

Sincerely,

T. Allan Hansen
Project Manager

Exhibit 4b
Initial Letter from Myers and Stauffer for Pharmacy Survey (Chain Pharmacies)

Sample (Chain Pharmacies)

Myers and Stauffer LC
Certified Public Accountants

September 24, 2007

«Chain_Name»
ATTN: «Corporate_Contact_Person»
«Address_1»
«City», «State» «Zip»

Re: Pharmacy Cost of Dispensing Survey

To: Nevada Chain Pharmacy Providers:

The Nevada Department of Human Resources, Division of Health Care Financing and Policy has contracted with Myers and Stauffer LC to conduct a pharmacy dispensing cost survey. All pharmacy providers in the state are requested to participate in the survey according to the following directions:

Dispensing Cost Survey

1. Enclosed is a listing of the names and addresses of your pharmacies in Nevada. Pharmacy information is presented as shown in records from the Nevada Department of Human Resources. If this list is inaccurate, please notify Myers and Stauffer.
2. Enclosed are several copies of the "Nevada Medicaid Pharmacy Cost Report." Please review the survey instructions. Please submit a completed survey **for each store** on the attached list. If you will require additional survey forms, please contact Myers and Stauffer for forms or make additional copies as needed. **If you would prefer to submit the data in an electronic format, please contact Myers and Stauffer to determine an acceptable format.** On request, Myers and Stauffer can provide an Excel spreadsheet template of the survey forms to facilitate electronic survey submission (please e-mail Shelly Schmitz at mschmitz@mslc.com to request an electronic survey template).
3. Retain a copy of the completed survey forms for your records.
4. Please describe any cost allocations used in preparing the income statement such as administrative expense, etc. Warehousing costs should be shown in cost of goods sold or listed separately.

11440 Tomahawk Creek Parkway • Leawood, Kansas 66211
(913) 234-1166 • (800) 374-6858 • FAX (913) 234-1104

It is very important that all pharmacies cooperate fully by filing an accurate cost report. Pharmacies are encouraged to return the requested information as soon as possible, but **no later than October 19, 2007.**

Please send completed forms to:

Myers and Stauffer LC
Certified Public Accountants
11440 Tomahawk Creek Parkway
Leawood, Kansas 66211

If you file using the paper survey form, please return the surveys using the enclosed Business Reply Label with any envelope. Postage will be paid by Myers and Stauffer.

All cost reports will be reviewed by staff at Myers and Stauffer LC. If this review yields any need for additional inquiries, you will be contacted by letter or telephone. All information submitted will be held in strict confidence. If you have any questions, contact Shelly Schmitz toll free at 1-800-374-6858 or (913) 234-1861. Your cooperation in providing the information for this study is greatly appreciated.

Sincerely,

T. Allan Hansen
Project Manager
Phone: (913) 234-1038
E-mail: ahansen@mslc.com

Exhibit 5a
Second Letter from Myers and Stauffer for Pharmacy Survey (Independent Pharmacies)

Sample (Independent Pharmacies)

Myers and Stauffer LC
Certified Public Accountants

October 11, 2007

«prov_no» / «random»
«prov_name»
ATTENTION: OWNER OR MANAGER
«address»
«city», «state» «zip»

Dear Pharmacy Owner or Manager:

The Nevada Department of Human Resources, Division of Health Care Financing and Policy has contracted with Myers and Stauffer LC to conduct a pharmacy dispensing cost survey. All pharmacy providers in the state have been requested to participate in the survey.

In the past few weeks, you should have received a copy of the dispensing cost survey form and instructions. If you have not received a survey form or if you have any questions, please call toll free at 1-800-374-6858.

Your prompt response to the survey is very important to meeting the survey schedule set by the Department of Human Resources. You are encouraged to submit a completed survey by the due date of October 19, 2007. If you require additional time to complete the survey, please contact Myers and Stauffer.

Your cooperation in providing the information for this study is greatly appreciated.

Sincerely,

T. Allan Hansen
Project Manager

11440 Tomahawk Creek Parkway • Leawood, Kansas 66211
(913) 234-1166 • (800) 374-6858 • FAX (913) 234-1104

Exhibit 5b
Second Letter from Myers and Stauffer for Pharmacy Survey (Chain Pharmacies)

Sample
(Chain Pharmacies)

Myers and Stauffer LC
Certified Public Accountants

October 11, 2007

«Chain_Name»
ATTN: «Corporate_Contact_Person»
«Address_1»
«City», «State» «Zip»

Re: Pharmacy Cost of Dispensing Survey

To: Nevada Chain Pharmacy Providers:

The Nevada Department of Human Resources, Division of Health Care Financing and Policy has contracted with Myers and Stauffer LC to conduct a pharmacy dispensing cost survey. All pharmacy providers in the state are requested to participate in the survey.

In the past few weeks, you should have received a copy of the dispensing cost survey form and instructions. If you have not received a survey form or if you have any questions, please call toll free at 1-800-374-6858.

Your prompt response to the survey is very important to meeting the survey schedule set by the Department of Human Resources. You are encouraged to submit a completed survey by the due date of October 19, 2007. If you require additional time to complete the survey, please contact Myers and Stauffer.

As a reminder, an Excel spreadsheet template of the survey forms to facilitate electronic survey submission is available on request (please e-mail Shelly Schmitz at mschmitz@mslc.com).

Your cooperation in providing the information for this study is greatly appreciated.

Sincerely,

T. Allan Hansen

T. Allan Hansen
Project Manager
Phone: (913) 234-1038
E-mail: ahansen@mslc.com

Exhibit 6a
Third Letter from
Myers and Stauffer for
Pharmacy Survey
(Independent Pharmacies)

Sample (Independent Pharmacies)

Myers and Stauffer LC
Certified Public Accountants

October 24, 2007

«prov_no» / «random»
«prov_name»
ATTENTION: OWNER OR MANAGER
«address»
«city», «state» «zip»

Dear Pharmacy Owner or Manager:

The Nevada Department of Human Resources, Division of Health Care Financing and Policy has contracted with Myers and Stauffer LC to conduct a pharmacy dispensing cost survey. All pharmacy providers in the state have been requested to participate in the survey.

In the past few weeks, you should have received a copy of the dispensing cost survey form and instructions. If you have not received a survey form or if you have any questions, please call toll free at 1-800-374-6858.

Your participation in the pharmacy cost survey is very important. This survey is being used by the Department of Human Resources to evaluate future reimbursement rates. In order to allow more pharmacies time to respond to the dispensing cost survey, Myers and Stauffer will continue to accept surveys through Friday, November 9, 2007.

Your cooperation in providing the information for this study is greatly appreciated.

Sincerely,

T. Allan Hansen
Project Manager

11440 Tomahawk Creek Parkway • Leawood, Kansas 66211
(913) 234-1166 • (800) 374-6858 • FAX (913) 234-1104

Exhibit 6b
Third Letter from
Myers and Stauffer for
Pharmacy Survey
(Chain Pharmacies)

Sample
(Chain Pharmacies)

Myers and Stauffer LC
Certified Public Accountants

October 24, 2007

«Chain_Name»
ATTN: «Corporate_Contact_Person»
«Address_1»
«City», «State» «Zip»

Re: Pharmacy Cost of Dispensing Survey

To: Nevada Chain Pharmacy Providers:

The Nevada Department of Human Resources, Division of Health Care Financing and Policy has contracted with Myers and Stauffer LC to conduct a pharmacy dispensing cost survey. All pharmacy providers in the state are requested to participate in the survey.

In the past few weeks, you should have received a copy of the dispensing cost survey form and instructions. If you have not received a survey form or if you have any questions, please call toll free at 1-800-374-6858.

Your participation in the pharmacy cost survey is very important. This survey is being used by the Department of Human Resources to evaluate future reimbursement rates. In order to allow more pharmacies time to respond to the dispensing cost survey, Myers and Stauffer will continue to accept surveys through Friday, November 9, 2007.

As a reminder, an Excel spreadsheet template of the survey forms to facilitate electronic survey submission is available on request (please e-mail Shelly Schmitz at mschmitz@mslc.com).

Your cooperation in providing the information for this study is greatly appreciated.

Sincerely,

T. Allan Hansen

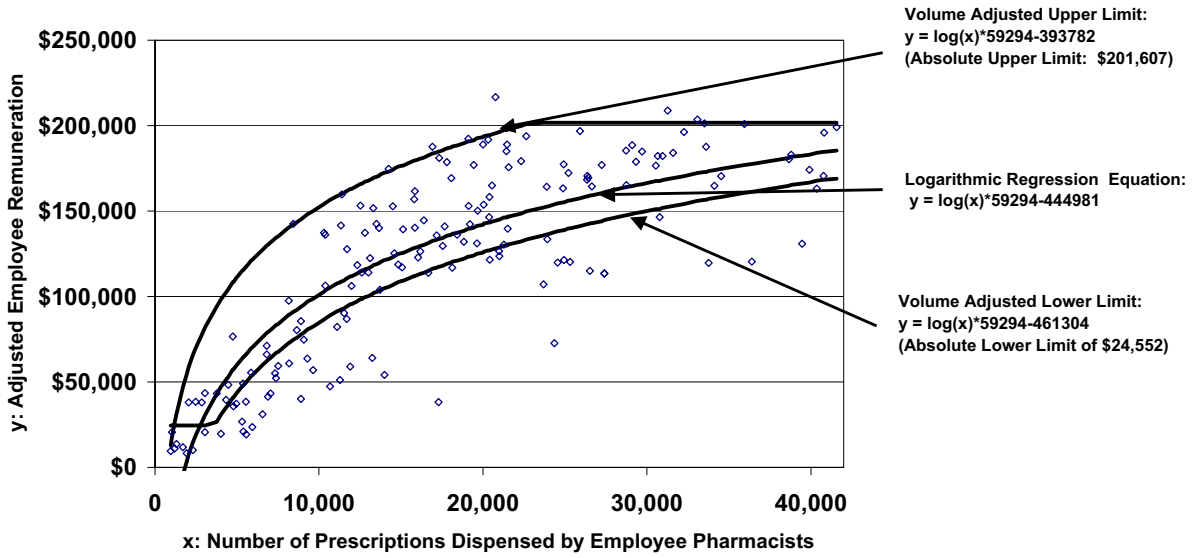
T. Allan Hansen
Project Manager
Phone: (913) 234-1038
E-mail: ahansen@mslc.com

Exhibit 7
Construction and Application of Owner Pharmacist Salary Limits

Construction and Application of Owner Pharmacist Salary Limits

Nevada Department of Human Resources, Division of Health Care Financing and Policy

Construction of Owner Pharmacist Salary Limits Based on Employee Pharmacist Salaries



Application of Owner Pharmacist Salary Limits

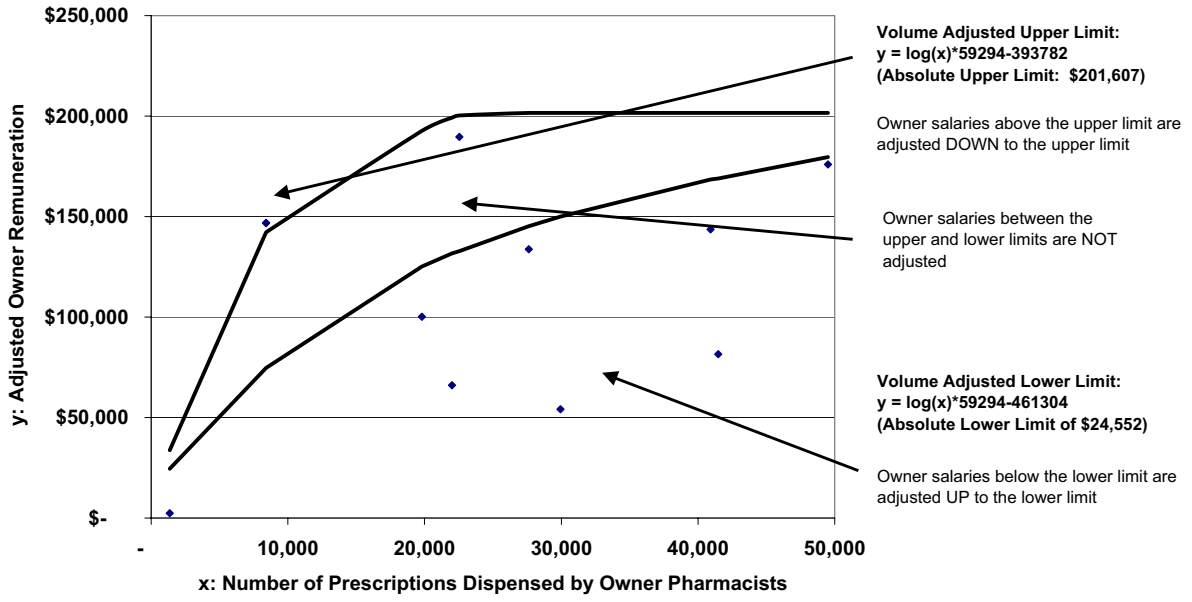


Exhibit 8
Table of Inflation Factors for Dispensing Cost Survey

Table of Inflation Factors for Dispensing Cost Survey

Nevada Department of Human Resources, Division of Health Care Financing and Policy

Fiscal Year End Date	Midpoint Date	Midpoint Index [1]	Terminal Month Index (Quarter 2, 2007) [1]	Inflation Factor	Number of Stores with Year End Date
6/30/2006	12/31/2005	100.1	105.0	1.049	0
7/31/2006	1/31/2006	100.3	105.0	1.047	0
8/31/2006	2/28/2006	100.5	105.0	1.045	59
9/30/2006	3/31/2006	100.7	105.0	1.043	1
10/31/2006	4/30/2006	101.0	105.0	1.040	0
11/30/2006	5/31/2006	101.3	105.0	1.037	0
12/31/2006	6/30/2006	101.6	105.0	1.033	21
1/31/2007	7/31/2006	101.9	105.0	1.030	61
2/28/2007	8/31/2006	102.2	105.0	1.027	37
3/31/2007	9/30/2006	102.5	105.0	1.024	0
4/30/2007	10/31/2006	102.8	105.0	1.021	12
5/31/2007	11/30/2006	103.1	105.0	1.018	1
6/30/2007	12/31/2006	103.4	105.0	1.015	76
7/31/2007	1/31/2007	103.7	105.0	1.013	0
8/31/2007	2/28/2007	103.9	105.0	1.011	26
9/30/2007	3/31/2007	104.2	105.0	1.008	0
10/31/2007	4/30/2007	104.5	105.0	1.005	0
11/30/2007	5/31/2007	104.7	105.0	1.003	0
12/31/2007	6/30/2007	105.0	105.0	1.000	0
Total Number of Stores					294

[1] Midpoint and terminal month indices were obtained from the Employment Cost Index, (all civilian, all workers; seasonally adjusted) as published by the Bureau of Labor Statistics (BLS). Quarterly indices published by BLS were applied to last month in each quarter; indices for other months are estimated by linear interpolation.

Exhibit 9
Histogram of
Pharmacy Dispensing Cost

Histogram of Pharmacy Dispensing Cost

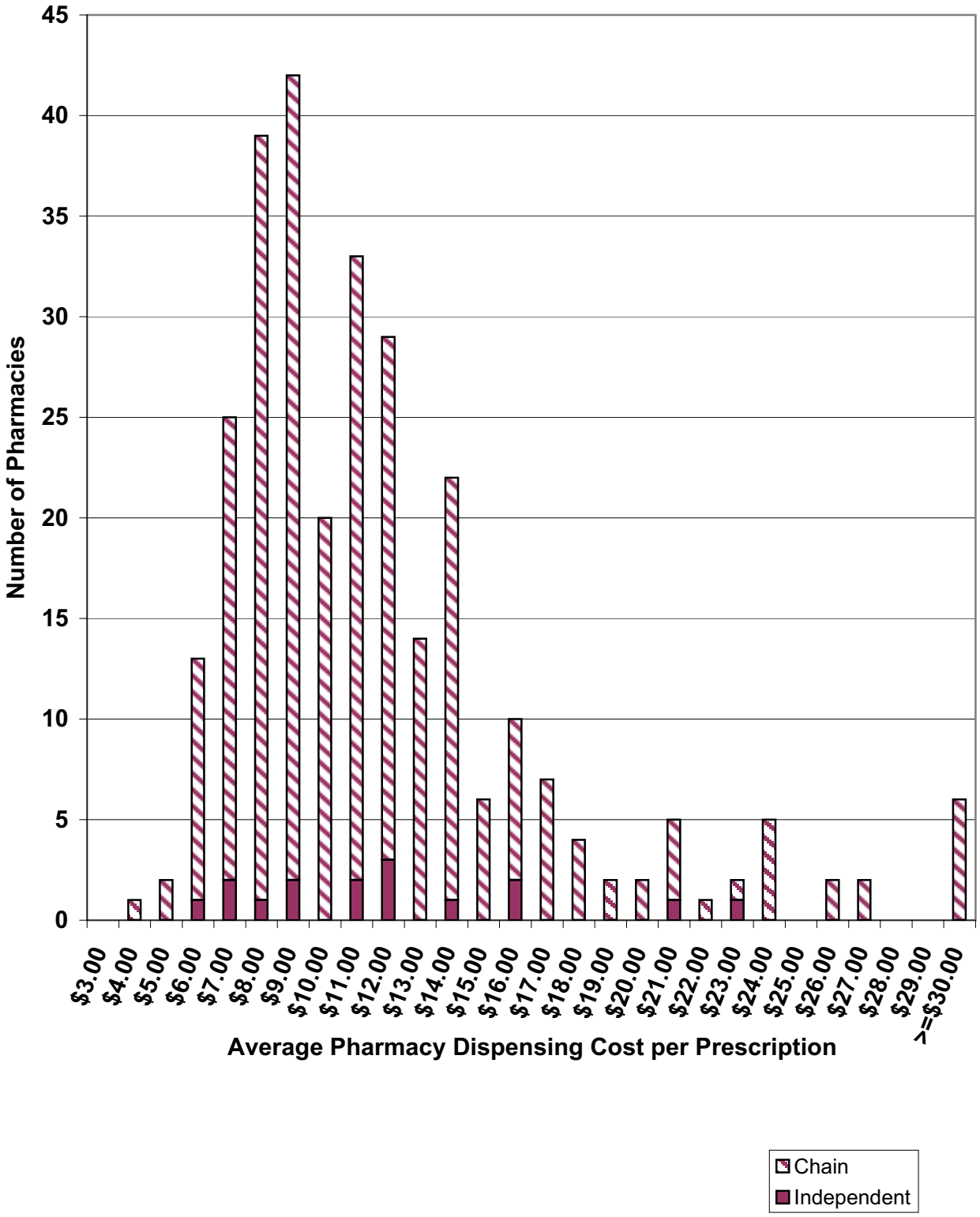


Exhibit 10
Pharmacy Dispensing Cost Survey Data Statistical Summary

Pharmacy Dispensing Cost Survey
Statistical Summary
Nevada Department of Human Resources, Division of Health Care Financing and Policy

		Pharmacy Dispensing Cost per Prescription									
		Measurements of Central Tendency						Other Statistics			
		Means			Medians				95% Confidence Interval for Mean (based on Student t)		
Characteristic	n: Number of Pharmacies	Mean	Weighted by Total Rx Volume	Weighted by Medicaid Rx Volume	Median	Weighted by Total Rx Volume	Weighted by Medicaid Rx Volume	Standard Deviation	Lower Bound	Upper Bound	*t* Value (with n-1 degrees of freedom)
All Pharmacies in Sample	294	$12.46	$10.57	$10.71	$11.11	$9.56	$9.46	$6.01	$11.77	$13.15	1.97
Retail vs. Institutional											
Retail Pharmacies	293	$12.47	$10.68	$10.80	$11.12	$9.64	$9.55	$6.02	$11.78	$13.17	1.97
Institutional Pharmacies [1]	1	$7.74	$7.74	$7.74	$3.87	$3.87	$3.87	$0.00	$7.74	$7.74	0.00
Affiliation (excludes institutional pharmacies):											
Chain	276	$12.42	$10.61	$10.51	$11.06	$9.60	$9.43	$6.04	$11.70	$13.13	1.97
Independent	18	$13.08	$10.19	$11.97	$11.46	$7.74	$11.07	$5.74	$10.22	$15.93	2.11
Location:											
Urban	258	$12.66	$10.66	$10.92	$11.24	$9.57	$9.61	$5.95	$11.93	$13.39	1.97
Rural	36	$11.00	$9.90	$9.75	$9.53	$9.48	$8.67	$6.38	$8.84	$13.16	2.03
Annual Rx Volume:											
0 to 24,999	54	$19.77	$16.82	$17.87	$17.39	$15.34	$16.83	$9.46	$17.18	$22.35	2.01
25,000 to 34,999	56	$11.80	$11.77	$11.05	$11.06	$11.06	$9.19	$3.80	$10.78	$12.82	2.00
35,000 to 49,999	68	$11.16	$11.14	$10.13	$11.93	$11.93	$9.41	$3.59	$10.29	$12.03	2.00
50,000 to 69,999	50	$10.97	$10.96	$11.31	$11.12	$11.11	$11.08	$2.42	$10.28	$11.66	2.01
70,000 and Higher	66	$9.51	$9.29	$9.17	$9.33	$9.08	$9.05	$1.73	$9.08	$9.93	2.00
Annual Medicaid Rx Volume: [2]											
0 to 499	45	$16.66	$12.23	$15.48	$13.53	$9.89	$12.93	$9.62	$13.77	$19.55	2.02
500 to 1,499	75	$13.63	$12.28	$13.73	$12.67	$12.03	$12.67	$5.46	$12.38	$14.89	1.99
1,500 to 2,499	59	$12.30	$11.05	$12.29	$11.69	$10.43	$11.64	$5.76	$10.80	$13.80	2.00
2,500 to 3,999	56	$10.54	$10.23	$10.54	$9.66	$9.61	$9.66	$2.68	$9.82	$11.26	2.00
4,000 and Higher	59	$9.74	$9.23	$9.79	$9.15	$8.81	$8.96	$2.82	$9.01	$10.48	2.00
Medicaid Utilization Ratio: [2]											
0.0% to 1.99%	68	$12.38	$10.80	$11.00	$11.16	$9.61	$10.11	$4.94	$11.19	$13.58	2.00
2.0% to 3.99%	75	$12.48	$10.53	$10.44	$11.46	$9.56	$9.53	$5.41	$11.23	$13.72	1.99
4.0% to 4.99%	32	$13.21	$10.71	$10.70	$11.99	$10.38	$10.39	$6.46	$10.88	$15.54	2.04
5.0% to 9.99%	69	$12.11	$10.52	$10.55	$10.23	$9.44	$9.24	$5.92	$10.69	$13.53	2.00
10.0% and Higher	50	$12.54	$10.20	$10.92	$9.68	$9.39	$9.44	$7.95	$10.28	$14.80	2.01

Notes:
All pharmacy dispensing costs are inflated to the common point of 6/30/2007.

(1) For purposes of this exhibit an "institutional pharmacy" is one which dispensed 40% or more of prescriptions reimbursed by Nevada Medicaid to recipients of a long-term care facility (based on Nevada Medicaid claims data for the time period of July 1, 2006 to June 30, 2007).

(2) Based on Nevada Medicaid claims data for the time period of July 1, 2006 to June 30, 2007.

Exhibit 11
Table of Zip Codes, Counties and Urban Versus Rural Designations

Table of Zip Codes, Counties and Urban Versus Rural Designations

Nevada Department of Human Resources, Division of Health Care Financing and Policy

Zip Code	County	Census Status [1]	Urban Versus Rural Indicator [2]
89005	CLARK	METRO	U
89008	LINCOLN		R
89012	CLARK	METRO	U
89014	CLARK	METRO	U
89015	CLARK	METRO	U
89024	CLARK	METRO	U
89027	CLARK	METRO	U
89030	CLARK	METRO	U
89031	CLARK	METRO	U
89032	CLARK	METRO	U
89040	CLARK	METRO	U
89048	NYE	MICRO	R
89049	NYE	MICRO	R
89052	CLARK	METRO	U
89074	CLARK	METRO	U
89081	CLARK	METRO	U
89084	CLARK	METRO	U
89101	CLARK	METRO	U
89102	CLARK	METRO	U
89103	CLARK	METRO	U
89104	CLARK	METRO	U
89106	CLARK	METRO	U
89107	CLARK	METRO	U
89108	CLARK	METRO	U
89109	CLARK	METRO	U
89110	CLARK	METRO	U
89113	CLARK	METRO	U
89115	CLARK	METRO	U
89117	CLARK	METRO	U
89118	CLARK	METRO	U
89119	CLARK	METRO	U
89120	CLARK	METRO	U
89121	CLARK	METRO	U
89122	CLARK	METRO	U
89123	CLARK	METRO	U
89128	CLARK	METRO	U
89129	CLARK	METRO	U
89130	CLARK	METRO	U
89131	CLARK	METRO	U
89134	CLARK	METRO	U
89135	CLARK	METRO	U
89139	CLARK	METRO	U
89141	CLARK	METRO	U
89142	CLARK	METRO	U
89144	CLARK	METRO	U
89145	CLARK	METRO	U
89146	CLARK	METRO	U
89147	CLARK	METRO	U
89148	CLARK	METRO	U
89149	CLARK	METRO	U
89156	CLARK	METRO	U
89301	WHITE PINE		R
89403	LYON	MICRO	R
89406	CHURCHILL		R
89408	LYON	MICRO	R
89410	DOUGLAS	MICRO	R
89415	MINERAL		R
89419	PERSHING		R
89431	WASHOE	METRO	U
89433	WASHOE	METRO	U
89434	WASHOE	METRO	U
89436	WASHOE	METRO	U
89445	HUMBOLDT		R
89447	LYON	MICRO	R
89448	DOUGLAS	MICRO	R
89450	WASHOE	METRO	U
89501	WASHOE	METRO	U
89502	WASHOE	METRO	U
89503	WASHOE	METRO	U
89506	WASHOE	METRO	U
89509	WASHOE	METRO	U
89511	WASHOE	METRO	U
89512	WASHOE	METRO	U
89521	WASHOE	METRO	U
89523	WASHOE	METRO	U
89557	WASHOE	METRO	U
89701	CARSON CITY		R
89702	CARSON CITY		R
89703	CARSON CITY		R
89705	DOUGLAS	MICRO	R
89706	CARSON CITY		R
89801	ELKO		R
89815	ELKO		R
89820	LANDER		R
89835	ELKO		R
89883	ELKO		R

Notes:

1) Census status refers to the U.S. Bureau of the Census designation for a county as being in a metropolitan statistical area or micropolitan statistical area (per December 2006 definitions, obtained from http://www.census.gov).
METRO = The county is located in a metropolitan statistical area.
MICRO = The county is located in a micropolitan statistical area.

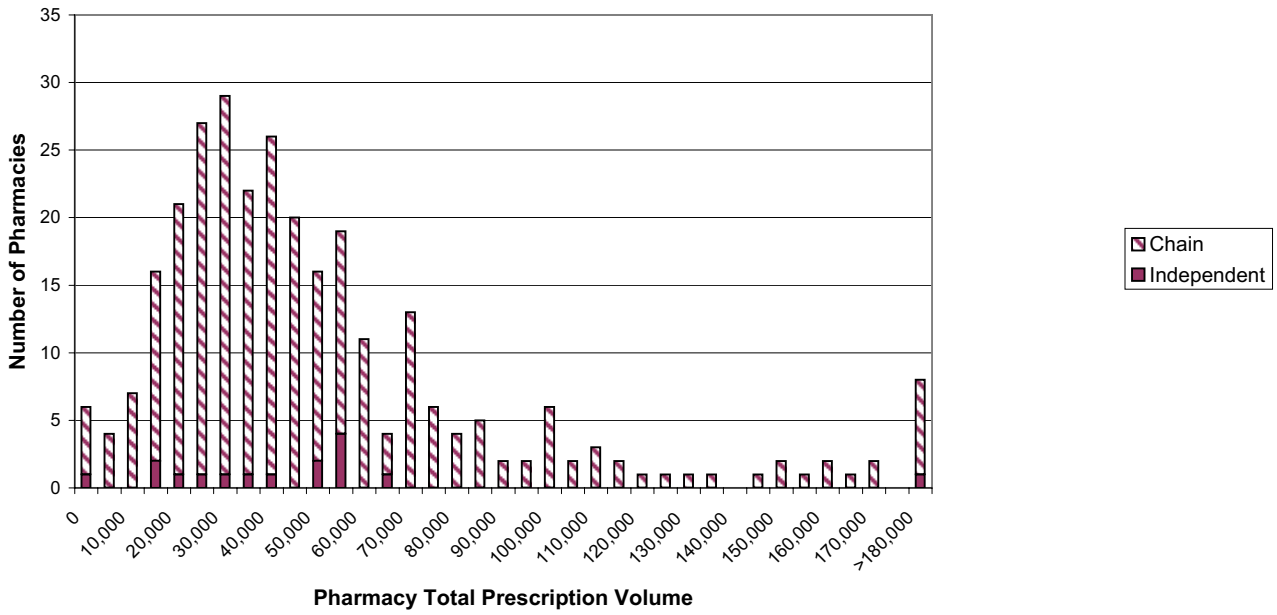
2) For purposes of the pharmacy dispensing cost survey, only pharmacies located in metropolitan statistical areas are considered to have an "urban" location.
U = Urban
R= Rural

Exhibit 12
Charts Relating to Pharmacy Total Prescription Volume:

A: Histogram of Pharmacy Total Prescription Volume

B: Scatter-Plot of Relationship Between Dispensing Cost per Prescription and Total Prescription Volume

Histogram of Pharmacy Total Prescription Volume



Scatter Plot of Relationship Between Dispensing Cost per Prescription and Total Prescription Volume

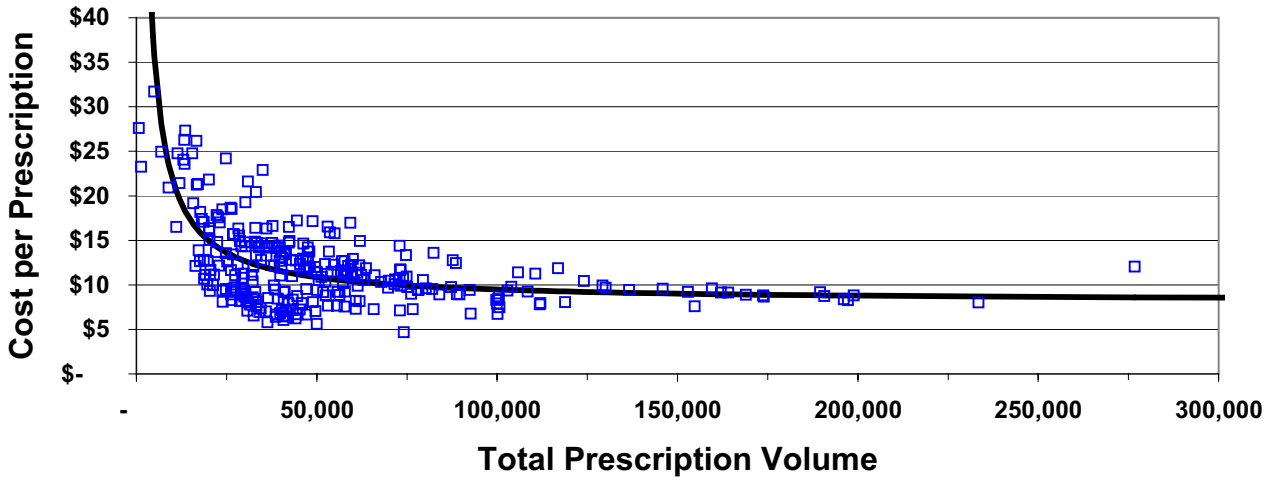


Exhibit 13
Summary of Pharmacy Attributes

Summary of Pharmacy Attributes

Nevada Department of Human Resources, Division of Health Care Financing and Policy

Attribute	Number of Pharmacies	Statistics for Responding Pharmacies		
		Response	Count	Percent
Type of ownership	293	Individual	11	3.8%
		Corporation	278	94.9%
		Partnership	1	0.3%
		Other	3	1.0%
		Total	*293*	*100.0%*
Location	294	Medical office building	4	1.4%
		Shopping center	22	7.5%
		Separate or downtown	140	47.6%
		Grocery store / mass merchant	121	41.2%
		Other	7	2.4%
		Total	*294*	*100.0%*
Building ownership (or rented from related party)	286	Yes, (own building or rent from related party)	70	24.5%
		No	216	75.5%
		Total	*286*	*100.0%*
Percent of prescriptions to long-term care facilities	294	0.5% for all pharmacies; (11.9% for 11 pharmacies reporting > 0%)	N/A	N/A
Provision of unit dose services	186	Yes (average of 29.6% of prescriptions for pharmacies indicating provision of unit dose prescriptions. 89.7% of unit dose prescriptions were reported as prepared in the pharmacy; 10.3% were reported as purchased already prepared from a manufacturer)	7	3.8%
		No	179	96.2%
		Total	*186*	*100.0%*
Percent of total prescriptions delivered	294	0.9% for all pharmacies; (13.1% for 21 pharmacies reporting > 0%)	N/A	N/A
Percent of Medicaid prescriptions delivered	294	1.1% for all pharmacies; (20.2% for 17 pharmacies reporting > 0%)	N/A	N/A
Provision of intravenous or home infusion prescriptions	294	Yes	293	99.7%
		No	1	0.3%
		Total	*294*	*100.0%*
Provision of intravenous or enteral nutrition prescriptions	294	Yes	0	0.0%
		No	294	100.0%
		Total	*294*	*100.0%*
Provision of blood factor or derivatives prescriptions	294	Yes	1	0.3%
		No	293	99.7%
		Total	*294*	*100.0%*
Percent of prescriptions compounded	294	0.4% for all pharmacies; (2.7% for 42 pharmacies reporting >0%)	N/A	N/A
Hours open per week	292	89.5 hours	N/A	N/A
Years pharmacy has operated at current location	279	8.1 years	N/A	N/A
Provision of 24 hour emergency services	292	Yes	42	14.4%
		No	250	85.6%
		Total	*292*	*100.0%*
Payer Type: percent of prescriptions (averages)	291	Medicaid	N/A	5.1%
		Other third party	N/A	83.1%
		Cash	N/A	11.8%
		Total	N/A	*100.0%*
Payer Type: percent of payments (averages)	291	Medicaid	N/A	5.9%
		Other third party	N/A	84.5%
		Cash	N/A	9.6%
		Total	*N/A*	*100.0%*

Exhibit 14
Chart of Components of Dispensing Cost per Prescription

Chart of Components of Dispensing Cost per Prescription